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The Director of Central Intelligence

Washington, D.C. 20505

National Intelligence Council

NIC #00574-84
25 January 1984

MEMORANDUM FOR: Director of Central Intelligence
Deputy Director of Central Intelligence

THROUGH : David Y. McManis
National Intelligence Officer for Warning

FROM : David D. Gries
National Intelligence Officer for East Asia

SUBJECT : East Asia Warning and Forecast Meeting

During the 20 January 1984 East Asia Warning and Forecast meeting representatives of the Intelligence Community discussed and made forecasts concerning the following subjects:

I. Malaysia and Mahathir's Future

Having weathered the constitutional crisis over royal prerogatives, Prime Minister Mahathir is now faced with a scandal stemming from irregular loans made by Bank Bumiputra. The investigating commission report, which is expected to take six months to prepare, will be a major determining factor for Mahathir's future. Barring unforeseen revelations during the investigation, Mahathir, at worst, will be "scorched but not burned."

II. President Reagan's Trip to China

Chinese relations with the United States are showing a growing sophistication. With the success of the Zhao visit to Washington, relations have grown in tone and substance. It would take a major unforeseen event to disrupt the President's planned trip. Chinese internal politics can be volatile and the passing of Deng, for instance, could throw open issues such as the Sino-US relationship. However, Chinese leaders seem to desire to show continuity in foreign affairs, which leads us to conclude that a cancellation of the President's trip is very unlikely.

III. Thailand and the Financial Crisis

Thai foreign trade is in serious trouble because of increased imports and decreased exports. This deterioration in the balance of trade has doubled the trade deficit causing serious balance of payment problems. To counter this the Thai government has raised the interest rates and moved to limit credit. Other possible solutions could be to borrow to finance the payment problems or to devalue the currency. Prime Minister Prem has threatened to resign if

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there is a devaluation. The key indicator for gauging Thai success in correcting this situation is whether the export market improves.

We note that the Thai debt is one half that of the Philippines. They have not been borrowing additional monies and it would take 4-5 years of continued problems coupled with inept management to bring them to the point of serious financial jeopardy. We expect them to weather this current short-term balance of payments problem without major difficulty.

IV. North Korean Proposals for Negotiation Leading to Confederation of the Koreans

We expect this process to move slowly, particularly in view of the Rangoon bombing. China will probably opt to stay in the background and try to dampen any radical North Korean initiatives. The Soviets will watch but play no role unless their interests (influence with North Korea) appear threatened. We expect no significant progress during the next six months.

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VI. Sino-Soviet Negotiations in 1984: Prospects

The atmosphere before the start of negotiations appears clouded, with the Soviets accusing China of favoritism towards the US, however both sides see the utility of the talks. The Soviets have shown increasing concern because of Premier Zhao's recent successful trip to the US. Nevertheless, we expect no major improvements from these negotiations but continuation of the dialogue may yield modest results.

VII. Interagency Production

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Next month's Warning and Forecast Meeting will be on 22 February 1984 at 1400 hours in room 7E62. Please phone attendance intentions to [redacted] and have your clearances verified to us by your Security Office by COB 17 February.

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David D. Gries *for*2
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